

# BUSINESS CONDITIONS & FORECASTS

## A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . . MAY 23, 1938

### The President's Scratch-Pad

☐ The time is here when the Directors and staff of the AMA cast a reflective glance over the Association's accomplishments of the past year. The AMA's "natural year" ends on May 31. The formal schedule of divisional meetings has been completed, and the Annual Business Meeting will be held on June 2.

☐ A report to our "stockholders" (the membership) is now in preparation. Here's a preview of that report:

☐ AMA in 1937-1938, in spite of the recession, had a most successful year. Almost 4,000 executives throughout the industrial United States actively participated in its work, this number actually attending its various meetings. Thousands more read its publications, and used its library.

☐ The Association did no lobbying, issued no propaganda. It made no pronouncements, did nothing to promote pet economic theories. It did, however, help many thousands of executives "to get the day's work done."

☐ Statistically the Association is well ahead of last year. Attendance at conferences was greater than in 1936-1937, and membership has steadily increased. Our publications enjoyed the widest circulation in their history, largely because of their excellent contents, which were written by the executives mentioned above. Financially we have improved our position, and have operated well within the budget set up by our Board of Directors.

☐ Immediately after the Annual Business Meeting, the Divisional Vice-Presidents in cooperation with their advisers on the Council will start getting their program plans under way. There will be no "recession" in AMA's efforts to find practical solutions to the various management problems with which member executives are confronted.

*Alvin E. Dodd*

### BUSINESS OUTLOOK UNCHANGED

Summary of the tabulations on the reverse side of this sheet shows that business remains unchanged at the low level that has prevailed since the beginning of the year. In recent weeks industry and trade have made an indifferent showing. The securities market has had mild gains followed in each instance by declines of equal proportions. Steel production has been reported at about 32 per cent of capacity. Automobile output has declined more than seasonally and stands at present at 44.5, while on May 15 a year ago it was 131.8.

### Management Congress Is Significant Event For American Business

Latest announcements from the Seventh International Management Congress indicate that a program of the greatest significance to American business is being formulated for the sessions which will be held in Washington on September 19 to 23, 1938.

The Congress is a triennial meeting of world leaders and experts in the field of management of business, industry, commerce, agriculture and the home.

**General Sessions**—Speakers from the United States and foreign countries will discuss the economic and social forces affecting business enterprise in present-day society. Addresses will be given in pairs to introduce the American and the foreign points of view on these aspects of management.

**Technical Sessions**—Discussion of recent developments in management techniques in the fields of administration, production, distribution, personnel, agriculture and the home. Papers of more than 200 experts from more than 40 nations will have been printed and distributed to the delegates prior to the Congress. At the simultaneous technical sessions these papers will provide the basis for discussion.

Distinguished American and foreign business men will present social and economic responsibilities at the various sessions which deal with such subjects as: "Administrative and Financial Controls"; "Reshaping Distribution to Modern Economy"; "Coordination of Production and Distribution"; "The Balancing of Incentive and Security"; "Work Simplification"; "Psychological Foundations of Management"; "Employee Security as a Responsibility of the State"; "A Common Ground for

(Continued on back page)

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Recent weeks have witnessed no major changes. The recession has apparently developed into a stalemate condition that gets no worse or better. Its worst aspect is its persistence. Its most encouraging aspect is its downward momentum has decreased considerably, and is proceeding at a slower pace. In view of the precipitate nature of the decline, however, a leveling period was most timely.

### Puzzling Conditions

The present position of business and its course in the immediate future is puzzling even to the most competent economists. The interplay of natural economic forces is in itself difficult to follow, but when this is overlaid and obscured by such problems as are now arising out of artificial monetary stimuli, labor conditions, and taxation, to say nothing of a multitude of political influences, accurate determination of our position is next to impossible.

From the standpoint of management, the most logical course for each company to pursue is to concentrate on its own problems. Many concerns have already started to give attention not only to the cyclical aspects of their business, but also to their relative position in the broader economic movements.

At the AMA's Production Conference, held in Pittsburgh on April 20-21, some excellent discussion of this general subject was heard. Members of the Association will derive immediate benefit from study of the publication which will shortly be issued covering this discussion. It is entitled "Gearing Operations to Quick Changes in the Business Outlook." It is composed of three papers: one by Professor E. C. Bratt of Lehigh University on reading and acting on advance danger signals, and two on how individual companies prepare for changes. These last two papers are by B. H. Lytle of the Westinghouse Electric & Manufacturing Company and W. O. Jelleme, Division Manager of the Pacific Mills.

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	Alexander Hamilton Institute	Babson Statistical Organization	Brookmire, Inc.	
<b>General Outlook</b>	Business has gone all the way back to where it started four years ago; this fact and the indicated market position present an apparent anomaly; but the stock market does not move after business—it moves ahead of it (May 12).	Altho there are some continuing declines, it is apparent that the downward movement is meeting with increasing resistance; some of the situations which previously were sources of trouble are being cleaned up decisively (May 16).	Confidence is required to translate existing potentialities into recovery; in recent months the government has done much to help recovery through tax modification, spending programs, etc. (May 14).	An financial s the past have giv ferences dustry c
<b>Money and Credit</b>		If pump-priming does not take hold it will be hastened by further inflationary features. This is suggested by Federal Reserve banking statistics which show a tendency for deposits to increase, with some accompanying growth of the member banks' investments (May 16).	Strength in the bond market appears of special significance in view of adverse business conditions, and in view of the fact that it made considerable headway before the government's new monetary policy was announced (May 14).	The c grade b the new crease in banks to 14).
<b>Security Markets</b>	The rebound in the market from the low point reached after the late winter decline was obviously at a rate too sharp to hold; from the technical standpoint, however, there are encouraging factors (May 19).	The investment demand for bonds definitely has shown much greater stability than for several months; strong spots in the stock market have reappeared (May 16).	There has been notable improvement in sentiment and market prices; it is only normal for business trends to lag behind stock prices; market irregularity or recessions should not obscure the long-term recovery outlook (May 14).	There financial time in pant, ho cession too ofte looking 14).
<b>Production</b>	The Steel Barometer of Business Activity shows that basic conditions have suffered a relapse; the estimate for the year's normal demand for steel is reduced to 36.9% of capacity; overexpansion in 1937 will keep output down for a while longer (May 14).	The production schedules for the month should average around the April levels; we consider of more significance the improving prospects for retail trade; betterment here should work back into productive industry (May 16).	Further curtailment appears in prospect for some industries; but the potentialities for revival of new financing, restoration of confidence, and general recovery are strengthened by recent developments (May 7).	Most halt last the char ever; th resting three m
<b>Distribution</b>	With farm prices falling and the price index of manufactured goods failing to show a corresponding decline, the purchasing power index fell to a new low of 73.5, thus indicating a further deepening of the recession (May 14).	For the country as a whole, sales as measured by debits to individual accounts are about 25% below a year ago; the retail field will be the scene of the initial upturn in sales (May 16).		Merch in the fi less than ume; sin declined accounts (May 1
<b>Building</b>		Latest figures on building fail to show the expansion which usually occurs at this season, but improvement will be forthcoming (May 16).	The government is definitely helping to build a recovery base and directly stimulate demand for building supplies, machinery and equipment which go into road building and public works of various kinds (May 14).	While ber of m the am long wa struction ing will covery t
<b>Agriculture</b>	Farm cash income from marketings declined to \$512,000,000 in March 1938 from \$596,000,000 in March last year, a reduction considerably larger than in the first two months of 1938 (May 14).	Cash receipts of farmers have declined since last November; large supplies of commodities have forced down prices; the recession has slowed up consumption; 1938 receipts should be 15% under 1937's, despite government largesse (May 16).	Commodities in the last two weeks have been steadier with grains, provisions, and tin higher (May 14).	The v summer ent pro raises t efforts t 14).
<b>Commodity Prices</b>	The average price of farm products, declining in March to a new low for the current recession, was 26.1% below the peak last April and was at the lowest point since August 1934 (May 14).	The Babson Agricultural Price Index stood at 100.2 on April 23 against 99.8 a month ago and 137.7 last year; the stage is set for a turnabout which should send leading indexes of wholesale prices higher before the end of the year (May 9).		Readj make b tention of price labor pr crease c
<b>Labor and Wages</b>	Curtailement of production has not been accompanied by an equal decline in employment; the index of production declined from an average of 93.0 in 1937 to 74.0 in the first quarter of 1938, while the index of employment dropped from 93.5 to only 86.0 (May 14).	Weekly payrolls were increased during March by \$200,000. This was a moderate gain for the time of year, but may be considered the first step in a period of renewed expansion; before many weeks total employment should follow payrolls to higher levels (May 16).	The current wage scale is now 20% above 1929, whereas farm prices are 34% below 1929; there is growing pressure in many industries for wage cuts, and serious unemployment is putting pressure on unions to accept lower rates (May 7).	With second employ suffer; decline Februar
<b>Foreign Trade and Conditions</b>	Careful analysis indicates that there is no basis for the belief that a further devaluation of the dollar or the pound will occur as a result of the new devaluation of the French franc (May 14).	The definite devaluation of the French franc has tended to confirm our earlier views that the world will continue to move in the direction of inflation rather than deflation (May 16).	Any temporary confusion caused by a heavy return flow of funds to Paris as a result of a stable franc is far outweighed in the long run by the favorable import of a strengthened France upon the world economic outlook (May 7).	War but rear the Brit program British tariff cu America

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.



# MAY, 1938

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## Business Week

An improvement in business and financial sentiment has been felt during the past week; rising utility stock prices have given hope of adjustment of differences between government and industry (May 14).

The continued improvement in high-grade bonds illustrates the effects of the new credit policy with its huge increase in bank reserves and stimulus to banks to put the reserves in use (May 14).

There is more hope in industrial and financial circles at present than at any time in months; enthusiasm is not rampant, however; predictions that the recession would run its course have been too often upset; most observers are looking to recovery in the fall (May 14).

Most production indexes showed a halt last week in the downward trend; the changes were not important however; the week represented a momentary resting place; the outlook for the next three months remains poor (May 14).

Merchandise moving over counters in the first quarter was down 6%, much less than the decline in the dollar volume; since September dollar sales have declined 11.6%; but price drops have accounted for a large share of that (May 14).

While there has been a large number of mortgage applications filed under the amended housing act, these are a long way from the stage of actual construction; there is still hope that building will be the bellwether of 1938 recovery (May 14).

The wheat acreage for harvest this summer will break all records if present prospects are fulfilled, and this raises the possibility of government efforts to cut acreage next year (May 14).

Readjustment of costs and prices to make buying possible will receive attention this summer, both in the case of prices and wages; at the same time, labor productivity should gradually increase (May 7).

With no improvement expected in second quarter corporation earnings, employment and payrolls are bound to suffer; in April the latter resumed their decline following a seasonal leveling in February and March (May 14).

War scares have eased in Europe, but rearmament continues at top speed; the British are rushing their airplane program; German autos are reaching British markets; Mexico is planning tariff cuts; Japan is going after South American markets (May 14).

## Dun's Review

For the most part, industrial and financial activity remains at the low level of the beginning of 1937; among recent developments are an upturn in high grade bond prices and signs of a revival in the new issue market (June).

Bank clearings, 22 U. S. cities, April, \$21,667,490,000, 5.1% below March, 16.9% below a year ago; Adjusted Insolvency Index (Failures), April (preliminary), 60.1 compared with 59.8 in March and 45.5 a year ago (June).

Led principally by utility and aviation groups, stock prices rebounded from their March-end lows; the Dow-Jones bond average recovered 5% from early April to the middle of May (June).

A preliminary estimate for April puts the Federal Reserve production index at 78% of the 1923-1925 average; while 40 points below April, 1937, it is significant that the entire decline since the first of the year has been only 2 points (June).

Easter buying accounted for the more favorable trade comparison with last year made during April; in the three weeks following Easter, department store sales averaged 14% less than in the corresponding weeks of 1937 (June).

Dun & Bradstreet building permits (215 cities), April \$84,842,365, 11% above March, 28% below a year ago; Dodge building contracts (37 states), April \$222,016,000, 2% under March, 18% below a year ago (June).

Dun & Bradstreet's Daily Commodity Price Index made the year's low on May 5 and in the following 10 days showed signs of stabilization at a level slightly above this, approximately 32% lower than the 1937 peak (June).

The decline in factory payrolls does not reflect any significant adjustment in wage rates; hourly earnings in 25 industries, computed by NCB, were only 0.4% below the 1937 high at the end of March (June).

Latest statistics reveal further decreases in world prices, production, and trade, despite increasing expenditures for armaments in major countries; in the United Kingdom, business activity in March was 4% below the 1937 high (June).

## Cleveland Trust Company

There has been no general expansion of business activity since the announcement of the pump priming program a month ago; the outstanding characteristics of the recession are still the same (May 16).

Study of the comparative advantages of long-term bonds and short term notes for the investment of corporate funds, favors the bonds instead of the notes, except under extraordinary inflation conditions (May 16).

When the pump priming announcement was made stock prices advanced moderately and have since held most of their small gains; the quotation for federal securities moved upward, and that advance has been held (May 16).

It is estimated that the volume of production during April was 41% below normal; in August, 1937, it was 9.7% below normal, in September 14.6, in October 21.6, in November 32.5, in December 35.6, in January 38.7, in February 39.7, in March 40 (May 16).

The chief characteristics of this renewed depression are: an abnormally small demand for new autos, low outputs in the iron and steel industry, greatly reduced railroad freight traffic, and steadily increasing unemployment (May 16).

The first requisite for permanently restoring employment in productive industry is to show investors that it is to their advantage to invest \$8,600 to provide a job for each worker added (May 16).

## National City Bank

Business men are not counting upon early or rapid improvement; with April gone they realize that seasonal influences are against an upturn between now and August; they are not concerned about beating the gun on a hypothetical price rise (May).

The possibility of a vicious circle of credit deflation is seemingly remote; business is lower, relative to normal, than in any period in our history except when violent credit deflation was under way (May).

A good rally in stock prices from the March lows indicates that recent governmental developments were interpreted as bullish, but the improvement has not carried through (May).

All business feels the lack of automobile buying; steel mill operations have dropped a little from the March rate; this is the usual season trend but is disappointing because the March peak was only 36% of capacity (May).

Department store sales have run close to a year ago, thanks to the late Easter; but except for that would apparently be off at least as much as in March, when the Federal Reserve Board's adjusted index was down 8% (May).

Building contracts slackened during the first half of April, after showing a more than seasonal gain in March (May).

It is estimated that for the full crop year, the diversion of our agricultural expenditures from foreign to domestic markets and our larger agricultural exports will create about \$450,000,000 of the \$1,000,000,000 export surplus which we may accumulate by June 30 (May).

Commodity prices have eased further, with the averages establishing new lows for the depression (May).

The striking gain in our export business from July, 1937, through March, 1938, tended to create an international balance of payments heavily in our favor (May).

## Board Announces Names of Divisional Heads, Officers

At the annual business meeting of the AMA, held June 2nd at the Hotel New Yorker, New York City, the Board of Directors announced the following list of officers for the year 1938-1939:

President, Alvin E. Dodd; Chairman of the Executive Committee, Thomas R. Jones, President, American Type Founders, Inc., Elizabeth, N. J.; Chairman of the Finance Committee, Harold V. Coes, Manager, Industrial Department, Ford, Bacon & Davis, Inc., New York City; Treasurer, James L. Madden, Third Vice President, Metropolitan Life Insurance Company, New York City; Secretary, Henry J. Howlett.

Divisional Vice Presidents: Office Management Division, C. L. Stivers, Office Manager, Jewel Tea Co., Inc., Barrington, Ill.; Production Division, Raymond S. Perry, Vice President, Ingersoll Milling Machine Company, Rockford, Ill.; Industrial Marketing, Thomas J. Harte, Vice President and General Sales Manager, North American Cement Corporation, New York City; Consumer Marketing, Edgar Kobak, Vice President, Lord & Thomas, New York City; Insurance, J. H. Nickell, Insurance Manager, Philadelphia Electric Company, Philadelphia, Penna.

### Directors

New Directors of the Association, elected for the term ending in 1941 are: D. F. Carpenter, Director of Manufac-

turing, Remington Arms Company, Inc., Bridgeport, Conn.; Dudley Cates, Vice President, Commercial Investment Trust Corporation, New York City; H. W. Dodge, Vice President, The Texas Company, New York City; Walter D. Fuller, President, Curtis Publishing Company, Philadelphia, Penna.; Charles P. McCormick, President, McCormick & Company, Inc., Baltimore, Maryland; Keith S. McHugh, Vice President, American Telephone and Telegraph Company, New York City; George H. Williamson, President, Williamson Candy Company, Chicago, Ill.; Earl M. Richards, Assistant to Vice President in Charge of Operations, Republic Steel Corporation, Cleveland, Ohio.

Merrill B. Sands, President, Dictaphone Sales Corporation, New York City; Thomas G. Spates, Director of Industrial Relations, General Foods Corporation, New York City.

## Mogensen Plans Conference at Lake Placid

Allan H. Mogensen, who has been heard at many AMA meetings (most recently at the Pittsburgh Production Conference), is planning a Conference on Work Simplification from July 11 to August 20 at Lake Placid Club, N. Y., under the auspices of the Lake Placid Education Foundation.

Assisted by Professor David B. Porter of New York University; Abner Robertson, Executive Director of the Cooperative Education Association; Professor Erwin H. Schell; and Glenn Gardiner of the Forstmann Woolen Company, Mr. Mogensen will hold a conference for 25 executives from various non-competing companies.

### Laboratory Work

Discussions will cover such topics as "Tools of Work Simplification," "The Operation of a Work Simplification Program," and "Influencing Men in Business." An extensive library of motion pictures will be used during the instruction and much of the time will be devoted to laboratory work, Mr. Mogensen said.

## President Dodd Cites Many Gains for AMA

Despite the downward trend in business, the AMA made tangible progress during the year, President Dodd told the Annual Business meeting of the Association. In his annual report which is now being printed and which will be distributed to the membership in a few days, Mr. Dodd noted improvement in all of the Association's activities. Some highlights of the report are:

**Five hundred and eighty-six new members were added to the membership rolls. Attendance at divisional conferences was the highest in history. AMA publications circulated more widely, were improved in all respects. The Research Bureau answered a greater variety of questions. The Association operated within the budget set up by the Board of Directors, it paid its bills, borrowed no money, added to its reserve.**

Regarding the future of the Association, Mr. Dodd said:

"The extent to which the AMA can increase its value depends upon the use which the members make of it. Divisional conferences will be increased in scope to bring the latest techniques to as many members as possible.

## AMA Members Active in Planning 7th Mgt. Congress

Plans for the General and Technical Sessions which will feature the Seventh International Management Congress, to be held in Washington during the week of September 19, are rapidly nearing completion. At these sessions which will form the most important management gathering ever seen in the United States, more than 200 papers will be presented by leaders from more than 40 nations.

Many AMA members are taking a leading part in the preparations. Members of the General Coordinating Committee, which is under the chairmanship of W. L. Batt, President of SKF Industries, include such names as Thomas R. Jones, President, American Type Founders and Chairman of the AMA Executive Committee; Alvin E. Dodd, AMA President, and the following chairmen of the various committees:

Lewis H. Brown, President, Johns-Manville Corporation; Harry Arthur Hopf, Managing Partner, Hopf, Kent, Willard & Company; Merrill B. Sands, President, Dictaphone Sales Corporation; Charles H. Hatch, Assistant to the President, National Can Company, Incorporated; Walter D. Fuller, President, Curtis Publishing Company; Ralph E. Flanders, President, Jones and Lamson Machine Company; Leon C. Stowell, Executive Vice President, Underwood Elliott Fisher Company; Charles R. Hook, President, American Rolling Mill Company.

### Business Outlook (cont'd)

February, and March of 1937, 859,472 cars were registered; while in 1938 this figure was 447,355. It must be borne in mind, however, that while the figure for the current year is 48 per cent below last year, last year's figure represents an all time high.

In the railroad industry conditions are such that the roads may end the year with a deficit of more than \$400,000,000, which will exceed by a large margin the biggest deficit of the previous depression, and which will wipe out any gains made since that time. Even if a 15 per cent wage cut is allowed, many observers doubt whether it will be sufficient to alleviate the industry's condition. This is what has given rise to the conjecture that a special session of Congress may be called in the autumn.

Geographically, conditions are not uniform. Recent reports indicate that almost normal conditions exist in some lines in southeastern and southwestern states. Similar reports are heard from the Pacific states. The midwest is usually reported fair and spotty, while the eastern region has the poorest showing of all.